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CENTRAL INTELLIGENCE AGENCY

## INFORMATION REPORT

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COUNTRY Brazil

SUBJECT Factors Influencing the Price of Coffee

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1. The primary cause of the high price of coffee in the US is a shortage of Brazilian coffee caused by adverse weather conditions in Brazil. The past crop was virtually halved by drought; the current crop, which will be harvested during the spring of 1954, was severely affected by frost.
2. The fiscal policy of the Brazilian government is an important secondary cause of the rise in price. That policy consists in the granting of successive benefits or bonuses to coffee exporters, and it results in the withholding of large quantities of coffee from the market because the owners of the coffee are reluctant to sell it when another government benefit or bonus, and a consequent rise in price, may be just around the corner.
3. When the new foreign exchange laws were passed by the Brazilian government during 1953, coffee exporters were required, like all other exporters, to convert their dollar credits into cruzeiros at the state bank. They were, however, given a preference over certain other exporters by being permitted to exchange at a higher rate than the official one such credits as resulted from sales of coffee in excess of US\$0.51 per pound. During the fall of 1953 the government granted another bonus to coffee exporters by enacting a law which permitted them to obtain for their dollar credits five cruzeiros more than the official rate. That is, if the official rate for dollar exchange is, say, 18.36, coffee exporters are able to convert at the rate of 23.86. But even so, coffee exporters are not in as favorable a position as exporters of other commodities. Those who export cocoa, for example, are permitted to exchange their dollar credits at 10 cruzeiros above the official rate. The coffee growers and brokers feel that this constitutes a discrimination against them and they are constantly exerting pressure on the government to raise the coffee bonus to 10 cruzeiros. A great many of them are confident that the raise will soon be granted. If the raise is granted, it will unquestionably cause an increase in the price of coffee in Brazil by several cents per pound. Consequently, the Brazilians who own

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coffee and are able to keep it off the market do so in the expectation of getting a better price after the bonus increase is granted. In market terms, the coffee in Brazil is in "strong hands" as a result of the government's policy and this fact has undoubtedly contributed to the rise in price.

4. When and if the bonus is increased the price of coffee in Brazil will rise temporarily but there will then be less of an incentive to hold it, and the net result will be more coffee coming on the market and an ultimate reduction in price in the US.
5. Speculation in the US has a very slight effect on coffee prices. The New York Exchange, which is by far the largest in the country, handles transactions which amount, in dollar volume, to less than 5% of the total coffee imported into this country. Most of the transactions on the exchange are legitimate hedges against existing commitments, and out-and-out speculation accounts for a very small fraction of the exchange's business.
6. Another factor which contributes to high coffee prices is the ocean freight. Before World War II, the freight rate between Brazil and US ports was US\$0.25 per bag. The rate is now US\$2.00 per bag and the steamship lines have announced that the rate will soon be increased to US\$2.25 per bag.

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